PROMOTING ECONOMIC GROWTH

FOR MONTANANS

First Steering Committee

Working Session

Billings, Montana

May 13, 1982

This material was used by McKinsey & Company, Inc., during an oral presentation; it is not a complete record of the discussion.

Today's discussion has four parts:

1. Review status of project

2. Define objectives for economic development

3. Discuss preliminary findings

   - Montana is not "poised for growth"

   - New activities - in addition to basic natural resources - will be required

   - Several bases for developing programs exist

4. Agree on next steps.

STATUS OF PROJECT

The Project is now about one-fourth to one-third finished

MAJOR PROJECT PHASES

	Diagnosis & Broad Option Generation	Program Detail Development	Recommendation and Consensus
Purpose:	Develop possible programs for clearly identified development opportunties	Work up specific proposals for group consideration	Check specific proposals with interested parties for acceptance or amendment
Major Activities:	. Review analyses done to date . Assess Montana's position relative to its neighbors on business location factors . Review development programs in other states . Interview wide range of economic participants for ideas on problems/solutions . Assess current problems/issues for major Montana industries and regions	. Continue interviews of business/labor/public interest leaders for specific ideas . Review success of similar programs in other regions . Test emerging ideas for feasibility, practicality	. Confirm appeal of proposals across sectors - modify as necessary . Seek consensus on specific recommendation priorities . Project costs & reasonable expectations of recommendations
End Product:	Presentation identifying Montana's strengths and weaknesses & suggesting "long list" of possible development programs	Presentation offering a set of specific program options with pros and cons	Public announcement of recommendations

Activities to date have focused on two tasks - assembling a fact base on Montana's strengths and weaknesses and beginning to surface issues and ideas

MAJOR ACTIVITIES

STRENGTHS AND WEAKNESSES	ISSUES AND IDEAS
Team, state government and university sources for	Team and other group assessments of fact base
. Strengths and weaknesses, by location factor	Interviewing
. Comparative advantage by industry	. About 35 interviews to date
	. Emphasize (77%) businessmen in basic industries

OBJECTIVES

Increasing primary jobs and improving per capita income levels are our primary focus.

OBJECTIVE	REASON
Primary job creation	. 43,000 now unemployed (10.5%) . Primary job growth essential for "derivative" jobs to grow
Increase per capita income	. Need to build in job growth for population . 10 percent below national average . No evidence of converging to national average

And, again, programs should target, in decreasing priority,

- Helping sustain existing businesses
- Assisting existing businesses to expand
- Stimulating businesses to start up within the state
- Attracting new businesses

While no goals have been set, it appears Montana will need 23,000 to 29,000 more basic jobs by the year 2000 to reduce unemployment to 5 percent and support growth for the existing population at a 0.6 percent annual rate.

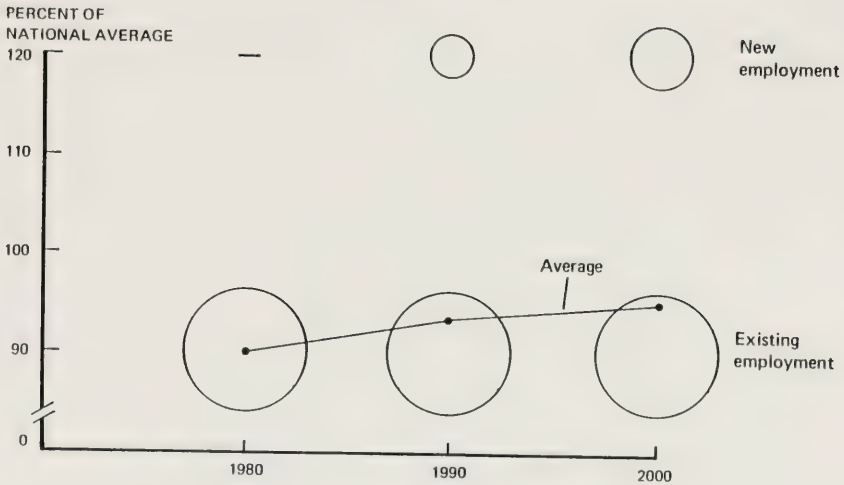
BASIC EMPLOYMENT REQUIREMENTS

	BASIC EMPLOYMENT
Current	110,000
Needed to reduce unemployment by one-half	9,000*
Needed to support population growth to year 2000	14,000 to 20,000**

*Assumes basic job multiplier of 2.4; 43,000 currently unemployed
**Assumes basic job to population multiplier of 5-7; population increase of 100,000 expected.

Closing the income gap may in fact be out of reach except over the very long term. Even if all new jobs averaged 20 percent above the national norm, average per capita income would be 95 percent of national in the year 2000.

AVERAGE PER CAPITA INCOME TRAJECTORY



Source: McKinsey Analysis

These objectives may have "moving targets", however, depending on the strength and direction of two important effects

- The national economy has a well-demonstrated, strong effect on the Montana economy - recovery could improve the current employment situation (and dull some enthusiasm for development programs)

- Successful job creation may be followed by significant in-migration, leaving the unemployment level and rate less affected.

And, while the creation of better paying jobs is important, the state government has articulated additional economic development goals which need to be factored in as well.

ADDITIONAL PUBLIC POLICY GOALS

- Increase Montana's economic diversity
- Encourage widely distributed growth throughout Montana
- Lessen cyclical employment patterns
- Increase small business opportunities

PRELIMINARY FINDINGS

Preliminary findings suggest stimulative programs would be highly desirable

1. Natural resources are Montana's one major strength - the state is not otherwise "poised for growth"

2. Economic development must stimulate industries beyond traditional extractive businesses

   - Growth prospects for natural resources are mixed

   - Opportunities should be sorted by desirability and comparative advantage

3. Several different program philosophies can be defined

1. Montana Not Poised for Growth

Montana's major strength is in natural resources - although, even here, it shares its position with other states.

MONTANA'S BALANCE SHEET—A (REVISED) BUSINESS VIEW

Area	Assets	Neutral	Liabilities
Markets			• Remote from national and even regional markets • Few significant in-state markets not already reasonably satisfied
Supplies	• Natural resources* - Agricultural production - Timber - Water - Energy - Metals/nonmetals mining • Low electricity costs for *small* consumers	• Lifestyle variously an asset or liability, depending on observer	
Transportation			• Definite distance penalty—selected rate penalties • High transportation cost share in many traditional Montana "exports"
Labor	• High quality • Good record on time lost	• Costs comparable to rest of region	• Several regions have lower costs • Highest unionization in region
Capital	• Possible public capital fund		• Removed from money centers • Smaller banks, less specialized expertise in nonagricultural lending
Public policy	• Fiscally sound government	• Policies more restrictive in some areas, less in others**	• Attitude perceived to be a problem

* Note, however, that Montana is not distinctively better than neighboring or competitive states in most of these resources; Montana is generally fourth—sixth in national production

** Awaiting further definition

Markets

National and even regional population and market centers are far away, relative to other western states. There are no significant regional markets within 500 miles, except Alberta.

MONTANA'S ACCESS TO MARKETS

Source: Road atlas

McKinsey & Company, Inc.

Montana may have a few underdeveloped in-state markets, but the potential appears limited and concentrated.

INSTATE MARKET OPPORTUNITIES

	Measures	JOBS Potential*	JOBS Actual	Issues
Financial services	Per capita	8,200	7,300	No "gap" if Colorado—a regional finance center—excluded
Wholesale trade	Retail employment	19,100	17,800	
Insurance	Per capita	4,500	3,400	"Gap" virtually disappears if Colorado excluded, as above
Mining/Drilling equipment	Recent emergence of specialty rig assembler			
Agricultural and ranch supplies	Fertilizer: $50 - 70 million Feed: $50 - 100 million	?		Why have past efforts failed? (e.g., alfalfa pelletizing) Are raw materials locally available ?
Machine tools	Specialization and efficient scale considerations make comparison difficult			
Paper products	Efficient scale considerations likely make instate market irrelevant			
Construction materials (stone, clay, glass)	Construction employment	1,700	1,300	Activity highly dependent on location of resources

* Based on experience in neighboring states

Source: U.S. Bureau of Economic Analysis, McKinsey analysis

Supplies

Montana has strong positions in selected resources - although there are relatively few in which it is a dominant influence.

MONTANA RESOURCES

Resource	Value $ Millions	Rank	Competitiveness
Agriculture			
Livestock	$750	2% of U. S. production	
Wheat	450	6th–6% of U. S. production	High quality Alternate–year cropping
Barley	100	4th–12% of U. S. production	Irrigation required
Energy			
Coal	300	5% of national production	Medium quality, low extraction costs–but Wyoming better positioned for growth markets, and lower cost
Oil	650	Minor–less than 1% of U. S. reserves	Activity level somewhat sensitive to price
Gas	75	Minor–less than 0.5% of U. S. reserves	
Electricity	75 (exported power)	n.a.	On a par with other Western coal burning states

Source: Various published sources

MONTANA RESOURCES

Resource	Value $ Millions	Rank	Competitiveness
Metals			
Copper	$100	Minor—3% of U. S. production	May be marginal producing region
Gold	30	4th—3% of U. S. production	Largely by-products of copper mining, but small mine operations increasing
Silver	40	5th/6th—6% of U. S. production	
Others	Molybdenum getting increased attention Reserves of high-value strategic metals No iron/steel activity in state		
Nonmetals			
Bentonite	$ 20	2nd—15% of U. S. production	One of few U. S. reserves
Renewable			
Timber	350	Medium—< 10% of national reserves	Timber industry undergoing significant change Montana has longest growing cycle
Water	?	n.a.	Headwaters for major river flows
Tourism	600	n.a.	"Bridge state" for Midwest to West Coast Attractions appeal to specific groups of tourists
R & D			
Agriculture	100 + staff	Medium	Focused on production/yields
Mining	40 staff	Comparatively small	Quality of graduates high—research program reputation unclear
Forestry	30 staff	Unclear: Major centers may be corporate, particularly for applications	
Energy/MHD			State-of-the-art

Montana's lifestyle has some universal assets - but is, net, an asset or liability depending on what an organization is seeking. And it varies considerably by region within the state.

PROS AND CONS OF LIFESTYLE

ASSETS	LIABILITIES
Low crime	Climate (as generally perceived)
Recreational opportunities	Less availability of advanced health care facilities
Natural beauty	

Remoteness from other population centers
Relative absence of cultural activities
Specific climate attributes

Transportation

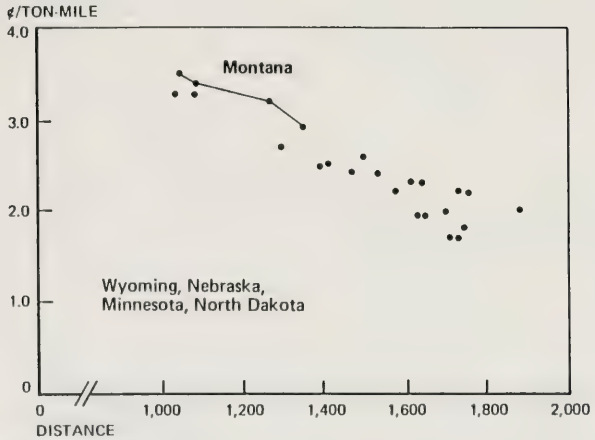
As noted earlier, Montana is at a distance disadvantage relative to markets. Concerns over high transportation rates, as well, were voiced by many businessmen.

- "We pay $0.17 per pound here for air transportation - versus $0.09 in Salt Lake."
- "Why does my competition pay $4.45/cwt coming West and I pay $9.95 going East?"
- "We practically gave the stuff away, but couldn't afford to ship it."

A basic review indicates <u>some</u> rates may indeed be higher - for whatever reasons.

Montana farmers argued successfully that their rail rates are 5 to 10 percent higher than those in other states.

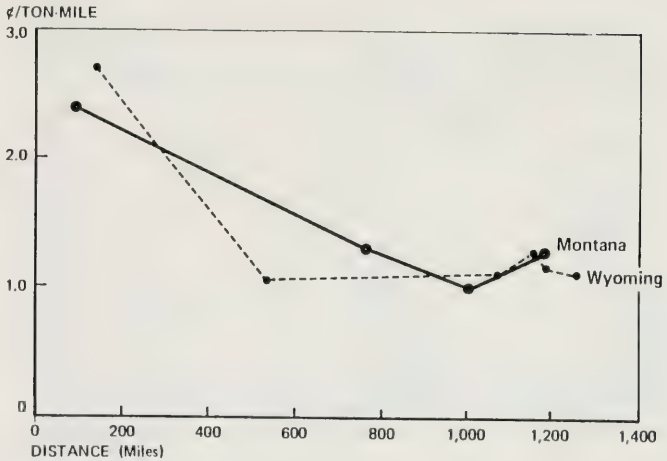
GRAIN RATES TO PORTLAND



Source: McCarty Farms case

Coal transportation rates are usually set in long-term contracts, and escalate with costs. There did not appear to be persistent differences in coal from Montana versus Wyoming.

COAL RATES PAID
1979

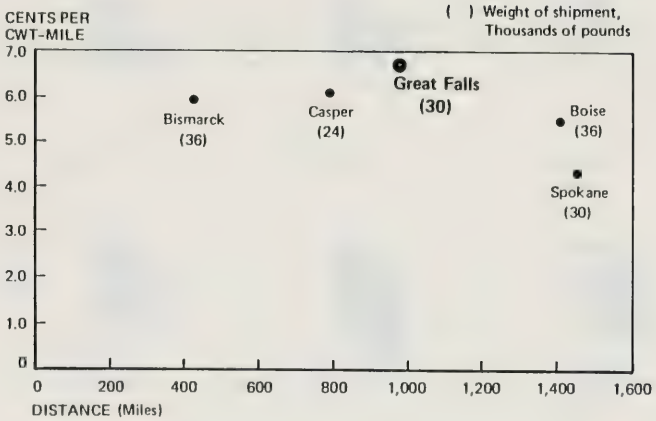


Source: *One-Percent Railroad Statistics, 1979*

In a random but realistic example, inbound truck rates were found to be high, even after adjusting for distance.

SAMPLE TRUCK RATES—FROM MINNEAPOLIS

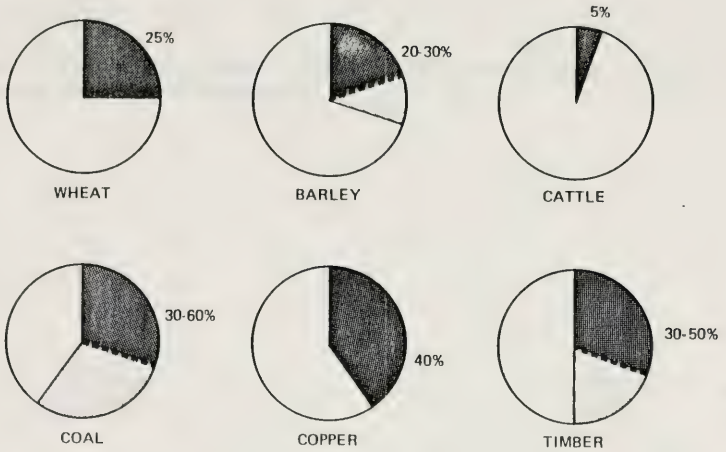
CLEANING COMPOUNDS, LOWEST TARIFF RATE



Source: Rocky Mountain, Midwest Motor Rate Bureaus

Any transportation cost disadvantage is particularly damaging because transportation costs are such a large percentage of value for many of Montana's basic exports.

PERCENT TRANSPORTATION COSTS FOR MONTANA'S BASIC INDUSTRIES
Percent of market value



Source: Industry sources, McKinsey analysis

Labor

Labor, because it is so important to a business's success, is reviewed in at least four areas:

- Availability
- Costs
- Productivity
- Unionization

Overall, Montana is not significantly different from neighboring states; southern states still offer wage (and availability) advantages.

Montana has relatively few large labor pools. This may sharply reduce the likelihood of locating a large-scale facility within the state - unless it is tied to a specific resource.

LABOR AVAILABILITY

TOTAL NUMBER OF COUNTIES WITH POPULATION GREATER THAN:

State	10,000	25,000	50,000	100,000	250,000	500,000
Montana	21	7	4	1	0	0
Colorado	30	12	10	9	4	0
Idaho	23	9	6	1	0	0
North Dakota	15	5	4	0	0	0
South Dakota	17	3	2	1	0	0
Utah	17	8	5	4	1	1
Wyoming	15	6	2	0	0	0

Source: 1980 Census

Montana wages are by and large comparable to those in neighboring states - but are generally higher than in New England and the South.

COMPARATIVE LABOR RATES – MIDYEAR 1980

		NEIGHBORS					SOUTH				MIDWEST			NEW ENGLAND	
	MONTANA	Cheyenne Wyoming	Eugene Oregon	North Dakota	Pueblo Colorado	Yakima Wash-Ore	Albany Georgia	Gadsden Alabama	Mobile Ala-Fla	Waco Texas	Champ. Illinois	Saline Kansas	Upper Michigan	New Hamp.	Vermont
Secretaries	5.80	5.92	7.40	5.76	7.08	7.72	5.55	6.03	5.78	5.01	5.36	6.02	5.42	5.60	6.38
File Clerks	3.94	–	4.21	4.25	–	5.54	–	–	3.52	3.58	3.56	4.00	–	3.82	4.06
Key Entry Operators	4.51	4.46	5.03	4.88	6.36	6.23	5.13	4.89	5.39	4.48	4.78	4.93	6.24	4.29	4.84
Computer Operators	5.78	5.07	6.04	5.60	8.83	–	5.91	6.77	5.46	5.27	5.40	5.45	6.12	5.80	6.00
Maintenance Carpenters	9.93	9.12	9.87	9.34	10.14	9.99	–	9.48	9.70	–	–	–	8.99	6.20	6.11
Maintenance Mechanics	10.51	9.58	10.28	8.10	–	10.18	8.66	9.19	9.58	8.28	–	–	8.66	7.26	7.14
Material Handling Laborers	7.34	6.40	9.02	5.55	7.98	6.56	6.78	6.00	5.34	5.01	8.74	6.34	6.14	4.65	5.28
Forklift Operators	7.85	5.42	8.83	8.26	8.29	6.87	6.44	7.33	6.19	5.54	–	6.87	6.49	6.30	5.32

Source: U. S. Department of Labor, "Occupational Earnings in Selected Areas, 1980"

Labor productivity is difficult to measure, as it varies according to mix of activities within an industry and the technological processes employed, but analysis suggests Montana productivity is good – and interviews confirm this.

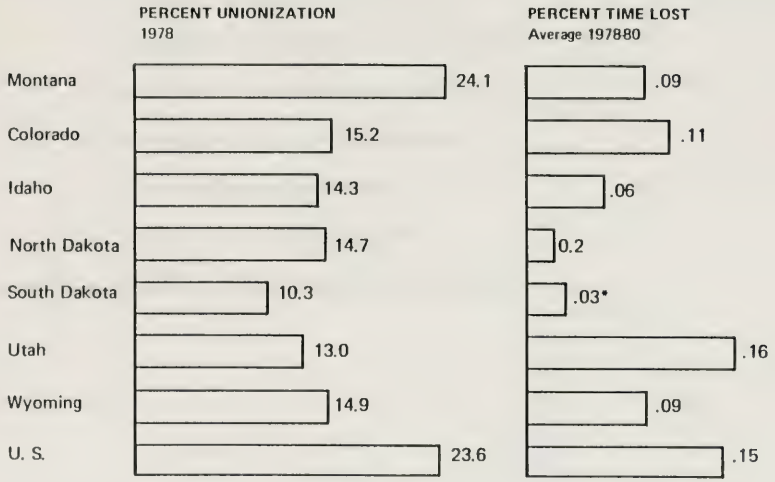
VALUE ADDED PER EMPLOYEE
$/production hour

	Montana	Colorado	Idaho	North Dakota	South Dakota	Utah	Wyoming	U.S.
Food and kindred products	$27	31	14	26	21	20	25	29
Lumber and wood	18	14	16		13	13		16
Stone, clay, glass	30		19	21	23	25	26	22
Fabricated metals	20	21		12	21	21		20
Nonelectrical machinery	14	31	11	25	15	35		26
Electric, electronic equipment	15			14	9	24		23

Source: 1978 Annual Survey of Manufacturers, Bureau of the Census

Montana is much more unionized than neighboring states – but its "time lost" record is good.

UNIONIZATION AND TIME LOST



* 2 year average

Source: U. S. Bureau of Labor Statistics, Directory of National and International Labor Unions in the U. S.

Capital

Capital is a highly mobile factor of production, with a well developed national market. Nevertheless, initial discussions suggested seven possible issues for attention.

SUGGESTED CAPITAL FORMATION ISSUES

1. Financing for medium-sized businesses, particularly the availability of equity capital
2. Financing of large-scale infrastructure projects
3. Sensitivity of out-of-state funding sources
4. Financing electric generation facilities
5. Argicultural processing projects
6. "Too much money leaving the state"
7. Financing municipal and public infrastructure

Four of these appear worth examining further. Even without specific issues, however, increasing capital formation - by any means - is a prerequisite to growth.

PRIORITY CAPITAL FORMATION ISSUES

ISSUE	REASONING
Availability of debt and equity for start-up and medium-sized businesses	• Demonstrated importance of such businesses to the economy and well documented difficulties in financing • No venture capital institutions in Montana • Small size of average bank/limited loan capability without participation • Alleged absence of nonagricultural expertise/dynamism
Large-scale infrastructure financing	• Public/private agreements and limits extremely important
Agricultural processing	• Doubts expressed as to viability of the traditional coop approach • Possibilities for new organizational entities
Municipal financing	• Demonstrated opportunities for more efficient financing means

Public Policy

Public policy can differ among states at three levels:

- Policy substance - for example, actual standards
- Process - the mechanics of applying the standards
- Enforcement posture - or "attitude".

While the public policy review is not yet completed, there are preliminary findings.

Taking air standards as the first example, Montana is stricter in certain areas, less so in others.

AIR STANDARDS COMPARED

	Montana	Colorado	Idaho	North Dakota	South Dakota	Utah	Wyoming	Oregon	Washington
Standards*									
Sulfur dioxide	0	-1	-1	+1	-1	-1	0	0	+1
Particulates	0	-1	-1	+1	+1	-1	+1	+1	+1
Fluoride	0	n.a.	-1	n.a.	n.a.	n.a.	+1	n.a.	-1
Emission	0	0	0	0	-1	0	0	0	0
Process									
PSD base	County	Federal	County	State	County	Area	State	State	County
Permitting									
Time frame (days)	60-75	90	In flux	90	90	90	120	60-75	60-75
Fee	No	Yes	In flux	Yes	No	Yes	No	Yes	Yes

* 0 = Montana, -1 = less stringent than Montana, +1 = more stringent than Montana

Source: Air Quality Bureau, Montana Department of Health

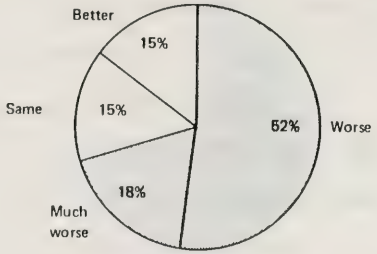
Montana has more firmly institutionalized and supported environmental oversight

ENVIRONMENTAL OVERSIGHT MECHANISMS

	Montana	Colorado	Idaho	North Dakota	South Dakota	Utah	Wyoming
Environmental Policy Act	Mandated for "major projects"	None	None	None	Amended to be discretionary	Amended, informally used	None
Facilities Siting Policy	Specific act	Joint review process	None	Specific act	Specific act	None	Specific act
Coverage							
Energy conversion	√	√		√	√		√
Transmission	√	√		√	√		√
Mining		√					
Industrial							√
Requirements							
Assess:							
Need	√	Fulfill all permitting applications		√	√		√
Alternative sites	√						
Environmental effects	√				√		√
Alternative technology	√			√			
Economic benefit				√			
Resource use				√			
Time frame (Months)	22 for review, 11 more for decision	10-40 for review and decision		Facility-6 Transmission-3	6-12		6
Other		Voluntary at applicant's request	Exclusion and avoidance (no alternative) areas designated				

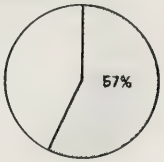
From interviews, however, comes the perception that Montana's business climate is less welcoming than our neighbors, a notion most often tied to a perceived anti-business attitude. Of course, businessmen in other states might say similar things. . .

Rate Montana's business climate relative to neighboring states



N = 35
77% Business
6 Labor
3 University
14 Government

Percent of business respondees specifically citing "attitude" as a problem



REPRESENTATIVE QUOTES

"Public policy has been somewhat antibusiness—we're building fences, not welcome mats"

"In Montana, there is an adversarial relationship . . ."

"This state is a protest place"

"Public policy is lip service, no real effort"

"Industry would accept environmental standards if they weren't 'moving targets' "

"There are bad adversarial gov/bus roles—although we have never *not* gotten a permit"

In support, businessmen point to antibusiness "signals" - not solely within government, but reflecting a general attitude throughout the state . . .

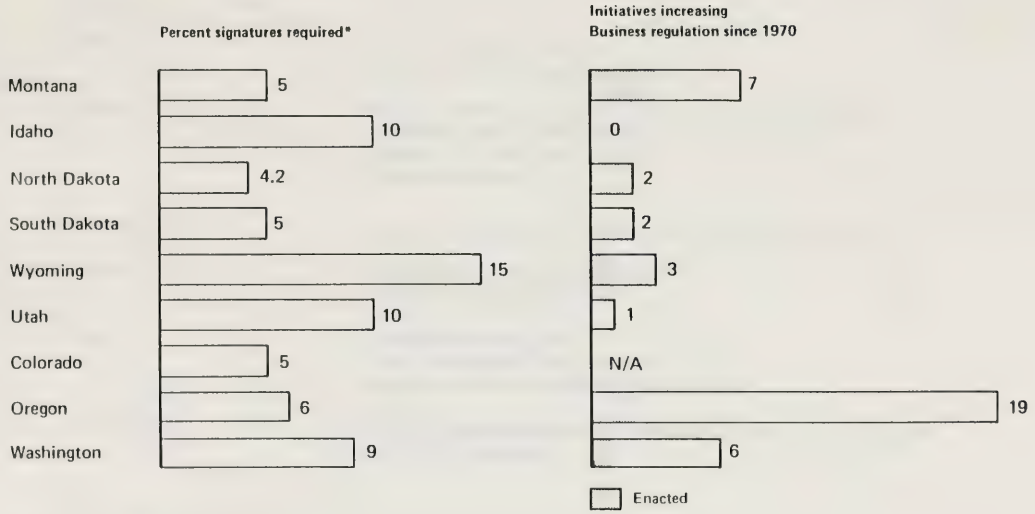
- Coal Severance Tax - first and highest in the nation
- Major Facilities Siting law - first in the nation
- Environmental Policy Act - one of only three western states with specific statute
- Disallowance of coal slurry as beneficial water use
- Cases of long permitting time - particularly Colstrip (6 to 7 years)
- Plant closure initiative - failed in 1980, but being revived

. . . but there have been recent positive signs

- Repeal of Inventory Tax - 1980
- Permitting of Northern Tier - 1981
- Creation of Department of Commerce
- Loaned Executive Program
- Montana Economic Development Project

Montana's initiative process is among the more "open" systems. And there appears to have been more public activity in oversight of business development than in other western states.

INITIATIVES
1970 - 80



* Percent of vote in recent major elections

Source: State administrative offices

Summary

Returning to the "balance sheet", Montana appears to have only one clear plus.

MONTANA'S BALANCE SHEET—A "NET" BUSINESS VIEW

Area	Overall net	
Markets	–	Few promising instate markets Long distances to any significant ones
Supplies	+	Natural resources plentiful—although competitiveness is generally comparable to other western states University expertise in selected areas Lifestyle a mixed bag
Transportation	–	Certainly distance penalties, perhaps some rate penalties as well
Labor	=/–	No discernible advantage within region Lower wages available elsewhere
Capital	=/–	No better than other states Further from regional money centers Questions over size and nonagricultural expertise
Public policy	=/–	On balance, state probably more concerned with how business develops than neighboring states

2. Additional Activities Required

Growth in new areas should be stimulated

- Traditional resource-based activities appear unlikely to provide enough jobs to close the long-term gap
- Desirability and comparative advantage characterize opportunities to pursue

Ballpark figures, based on a number of "ifs," suggest that Montana's economic trends will not quite provide enough primary jobs to support slow population growth and close the unemployment gap. Additional resource and/or manufacturing jobs will be required.

PRIMARY JOBS CREATION

Sector	Current number 1980	Year 2000 new	Adjusted number*	Comments
Agriculture	34,600	Cash receipts and net farm income the revelant factors		
Metal Mining Nonmetal mining	1,900 800	1,500	2,350	Assumes 4 new mines—vs. 8-year downtrend
Coal	1,400	3,000	5,300	Assumes 63 million tons in 1990, 100 million in 2000
Oil and gas	4,600	500	700	Assumes overthrust activity
Heavy construction	3,800	0	0	
Wood products	9,100	1,800	2,300	Assumes recovery to peak 1979 levels
Primary metals	1,900	700	1,000	Assumes major expansion or new facility—versus recent declines
Food products	4,100	?	?	Could be zero, even long term
Refinery	1,000	0	0	No new facilities
Other manufacturing	6,700	?	?	What kinds?
Rail	7,400	500	900	To support coal growth
Federal	22,900	0	0	Has been declining
Tourism**	10,200	6,000	5,000	Estimated 6% increase in tourist-days
Total	110,400		17,550 vs. 23,000 to 29,000 required	

* Adjusted by income index to "average" basic jobs

** Non-resident travel

Source: U. S. Bureau of Economic Analysis, Western Analysis, McKinsey Analysis

Many of these resource-based projections are clouded, or already represent considerable reductions from earlier forecasts.

RESOURCE-BASED INDUSTRY ISSUES

COAL	"Yellowstone Study" (1974) estimated 269 million tons by 2000 - versus current 100 million projection Powder River lower cost, better located Synfuels slow being realized Pacific exports smaller than anticipated for US; Montana coal is lower BTU
TIMBER	Long term housing market may not recover to historic levels Rail rate deregulation already causing major market shifts in Northwest Harvest patterns must change - lucky to retain 1.2 billion board feet long term
HARD ROCK	Continuing declines in existing jobs make net increases much less likely

In pursuing more primary jobs, development programs should encourage activities where the chances of and rewards for success are greatest. In developing its distinctive "portfolio" of economic activities, Montana must apply two principles - desirability and comparative advantage.

	EXAMPLES
Desirability	. Produces many jobs
	. Produces well-paying jobs
	. Yields significant public revenue to pay for public services
Comparative Advantage*	. State has production cost advantage
	. Builds on a special niche or competence

*Either existing or easily created

An initial list of industries for consideration included three major categories

RESOURCE-BASED "EXPORT"* INDUSTRIES	IMPORT SUBSTITUTION INDUSTRIES	NEW "EXPORT" INDUSTRIES
Timber	Financial Services	Computers
Energy	Wholesale	Electronics
Power	Insurance	Recreational Equipment
Metals	Agricultrual Supplies	R&D Centers
Nonmetals	Ranching Supplies	Communications/ Information Processing
Livestock	Construction Materials	Bio/Genetic Technology
Grain	Machine Tools	Architecutural Enginering
Expertise	Manufactured Housing	
Tourism		

*Includes successive processing businesses

The desirability of and Montana's comparative advantage in each industry should be displayed systematically in a quantitative screen.

WORKSHEET—DESIRABILITY AND COMPARATIVE ADVANTAGE

	DESIRABILITY										COMPARATIVE ADVANTAGE		
	Job potential and characteristics									Public revenue			
INDUSTRY	Percent wages	Average income $ Thousands	Projected growth - %	Degree of influence	Cyclicality/Volatility	Strength of potential linkages*	Percent establishments with less than 20	Public revenue per job**	New public services required	Percent transportation cost	Advantages	Disadvantages	Net

* From *Input-Output Model of the Montana Economy*, MSU, Bulletin 682

** $ thousands per job in direct taxes plus personal income tax

In this way, tradeoffs should become clearer. For example, coal produces few direct jobs, many derived jobs, and a great deal of public revenues per job. Tourism produces many low paying jobs, and little public revenue.

WORKSHEET—DESIRABILITY AND COMPARATIVE ADVANTAGE

PRELIMINARY

	DESIRABILITY										COMPARATIVE ADVANTAGE		
	Job potential and characteristics									Public revenue			
INDUSTRY	Percent wages	Average income $ Thousands	Projected growth - %	Degree of influence	Cyclicality/Volatility	Strength of potential linkages *	Percent establishments with less than 20	Public revenue per job **	New public services required	Percent transportation cost	Advantages	Disadvantages	Net
Coal	10	24	9	M/H	L	M		60	?	≈ 30%	Reserves	Competition	M/H
Tourism	25	7	3	M/H	M	L		2	?	50%	Selective appeal	Costs from population centers	M

* From *Input-Output Model of the Montana Economy*, MSU, Bulletin 682

** $ thousands per job in direct taxes plus personal income tax

Sources of comparative advantage and disadvantage vary from industry to industry, depending on the business's key location decision factors.

For a machine tools manufacturer for example, there are four specific, high priority location factors and two secondary factors.

PRELIMINARY

MACHINE TOOLS

Primary location factors

- Proximity to capital goods manufacturers
- Engineering and R&D pool
- Skilled blue-collar labor
- Low cost/productive labor (assembly)

Secondary location factors

- Taxes/incentives
- Local interest/commitment

Comparative advantage in Montana is then determined by assessing the State's current (or prospective) "fit" with key requirements.

MACHINE TOOLS

PRELIMINARY

Primary location factors	Fit with Montana
Proximity to capital goods manufacturers	Low
Engineering and R&D pool	Low
Skilled blue-collar labor	High
Low cost/productive labor (assembly)	Medium
Secondary location factors	
Taxes/incentives	?
Local interest/commitment	High

While it is still premature to tell what additional activities - beyond strengthening existing businesses - might make the most sense for Montana, several areas already appear promising.

SOME EMERGING INDUSTRIES

Industry	Desirability	Comparative advantage	
Water	H	H	Potentially major source of state revenue—in "use it or lose it situation" Industrial uses (e.g., coal slurry) can pay much more than irrigation can Other states (e.g., Wyoming) becoming aggressive in water development plans
Tourism	H	H/M	Highly appealing destination for specific groups of vacationers
Agricultural processing	H	H	Past efforts have not been successful—but new, integrated combination of feedstock, R&D, processing technology and marketing organizations could be
Strategic metals	?	?	Unknown potential—but very possibly major
New opportunities (General)	H	M/L	Decision to locate in Montana to date appears personal on part of CEO, based on lifestyle Generally no particular economic advantage to Montana—but can be selectively created

3. Several Program Bases Exist

Four categories of development "philosophies" have been identified

1. Improve individual factors
2. Tailor programs for specific classes of business
3. Concentrate on an industrial theme(s)
4. Choose and follow a distinctive development "path"

Factor policies focus on improving Montana's availability, cost or quality of a specific factor - for example, capital or public policy

POLICY POSSIBILITIES – BY FACTOR

ILLUSTRATIVE

FACTORS	INDUSTRIES: Existing	INDUSTRIES: New
Markets		
Supplies		
Transportation		
Capital		
Labor		
Public policy		

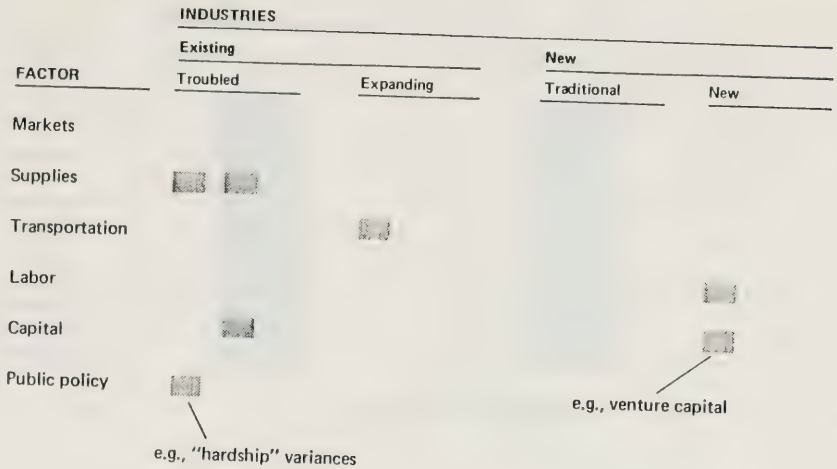
e.g., instate investment

phased compliance

Tailored programs by class of business would selectively help different industries where they need it most

POLICY POSSIBILITIES – BY CLASS OF BUSINESS

ILLUSTRATIVE



An industrial theme approach would provide integrated assistance across all factors for selected industries

POLICY POSSIBILITIES – BY INDUSTRY

ILLUSTRATIVE

FACTOR	INDUSTRIES: Existing	INDUSTRIES: New
Markets		
Supplies		
Transportation		
Labor		
Capital		
Public policy		

e.g., agricultural processing

Development "paths" are not easily summarized, but seven have been offered – with varying pros and cons.

DEVELOPMENT PATHS

PRELIMINARY

Short title	Example
International partnership	Develop formal relationships with Alberta, Japan, etc.
Self-help	Invest heavily in education and R&D
Fixed to liquid assets	Develop extractive industries for jobs, public revenues
Subsistence	Accept slower growth, lower per capita incomes and reshape public policies accordingly
Zone	Establish industrial and nonindustrial areas
Tourism	Develop Montana as a world-class tourist destination
Entrepreneurial	Create an entrepreneurial class

While thought has not yet been given to specific program mechanisms, several principles should guide the project's work.

1. Preference for joint-involvement, joint-risk approaches.

2. General inclination to implement using existing organizational resources

3. Those that benefit most and most directly should contribute at least some of the costs.

While Montana's final program will be unique, others offer examples of what has been attempted

WHAT SOME OTHERS HAVE DONE

	Development targets	Sample actions	Comments
ALBERTA	• Energy resources	• Joint province–industry energy venture • $10 billion economic development program	• Calgary now 3rd largest financial center in Canada
ALASKA	• Develop natural resources–oil, gas, coal and minerals, agriculture, timber, fish	• 13 native development corporations • Concentration on infrastructure development	• $4 billion state funds in development
NORTH CAROLINA	• Basic industries–tobacco, furniture, textiles • Manufacturing, especially high technology	• Research Triangle started 25 years ago • $24 million recently for state microelectronics center	• $12 billion investment in new industry over last decade
MASSACHUSETTS	• Small/medium businesses • Electronics firms	• Recent $40 million joint public/private microelectronics center • $100 million capital resource corporation for long term loans and equity, financed by insurance company tax breaks	• One of the primary centers of high technology R&D in the world
KENTUCKY	• Existing business expansion and new business location	• Governor leads the effort • Annual business/labor meeting • Community Economic Development Training • Aggressive domestic and international development efforts	• 1981-80 new plant locations; 5,500 jobs; 432 plant expansions; 8,000 new jobs
WASHINGTON	• Diversification–"clean" manufacturing • High technology	• Puget Sound Development Corporation 1971: 300 CEOs, $2·5 million annual budget	• Estimate 23,000 new jobs attracted since 1971 • 224 new plant location

NEXT STEPS

At this point, the Project focus should shift to identifying and reviewing action alternatives

Phase II Workplan

1. Complete balance sheet comparisons
   - Public policy
   - Federal inflows/outflows
2. Identify additional high priority businesses
   - Complete desirability/comparative advantage screen
3. Test feasibility of each high-opportunity sector identified earlier
   - Water - Indicate economic feasibility and existence of demand
   - Tourism - Estimate necessary state benefits to justify promotion dollar. Compare other states' budgets and financing means
   - Agricultural processing - Suggest phased approach to "integrated facility"
   - Strategic metals - Confirm/document national and instate interest
4. Conduct broad-based interviews instate and out of state to surface specific ideas aimed at
   - Helping troubled businesses survive
   - Assisting existing businesses to expand
   - Improving the overall "attitude"

- Attracting desirable businesses
- Generally promoting job growth within the state

Use a variety of techniques - telephone, surveying, polling, personal interviews.

5. Document development activities of Montana and other states and, as feasible, results
   - For successful programs, identify the key characteristics of administration
   - Group actions into those requiring money, those dealing with processes, and those initiating a group effort
6. Prioritize recommendations on basis of attractiveness to development objectives and others' experience (as applicable)

Only July 29, the Steering Committee will be asked to review some program opportunities.

TENTATIVE AGENDA - July 29

1. Review any adjustments to Montana's balance sheet
2. Determine acceptability of screening results
3. Evaluate recommendations offered